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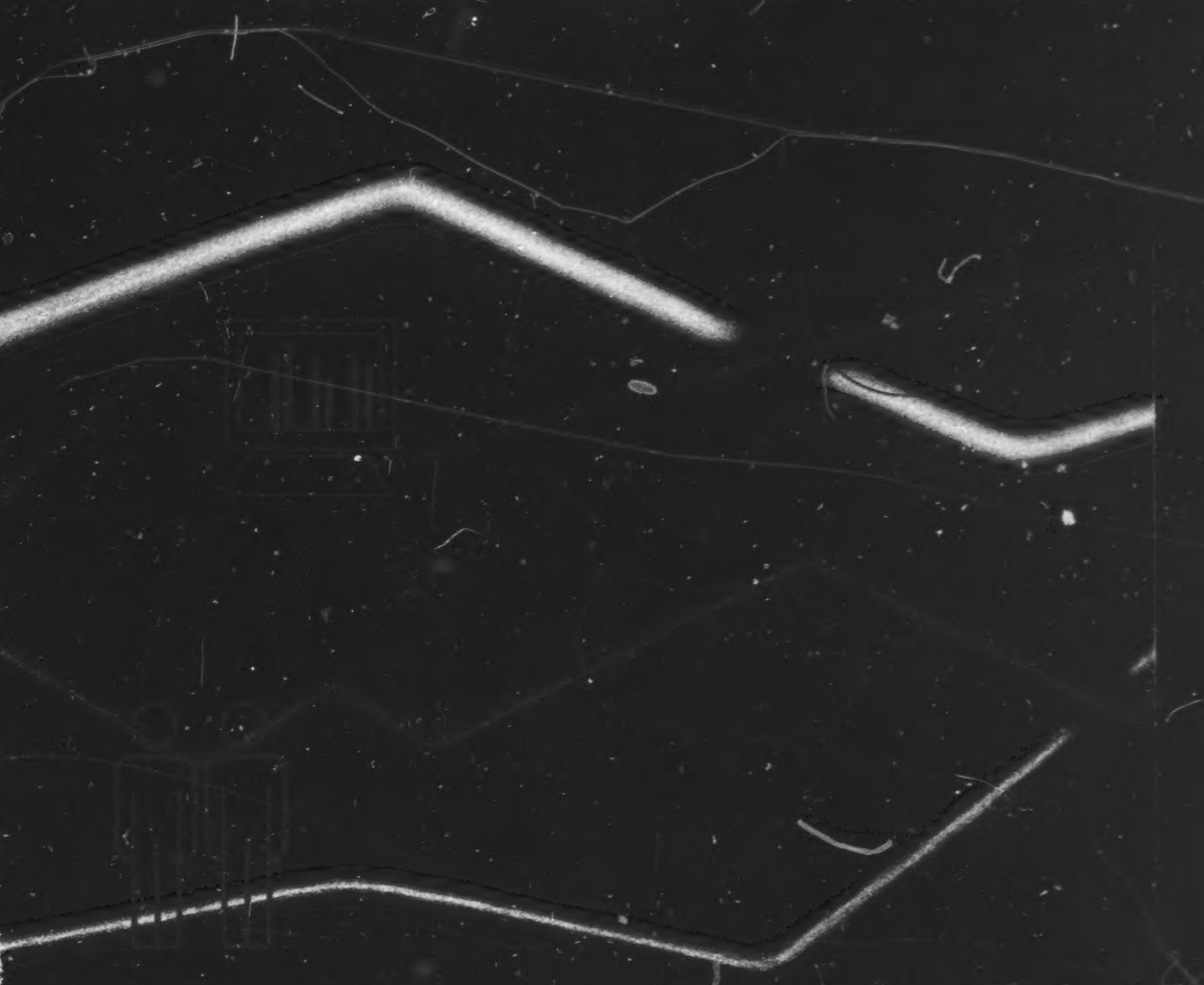
Hotline:
White House tax proposal seen meeting distributors' objections



39th Annual Survey of Distributor Operations

ID Industrial Distribution

VOL. 74 NO. 7/74th yr. A TECHNICAL PUBLISHING PUBLICATION JULY 1985

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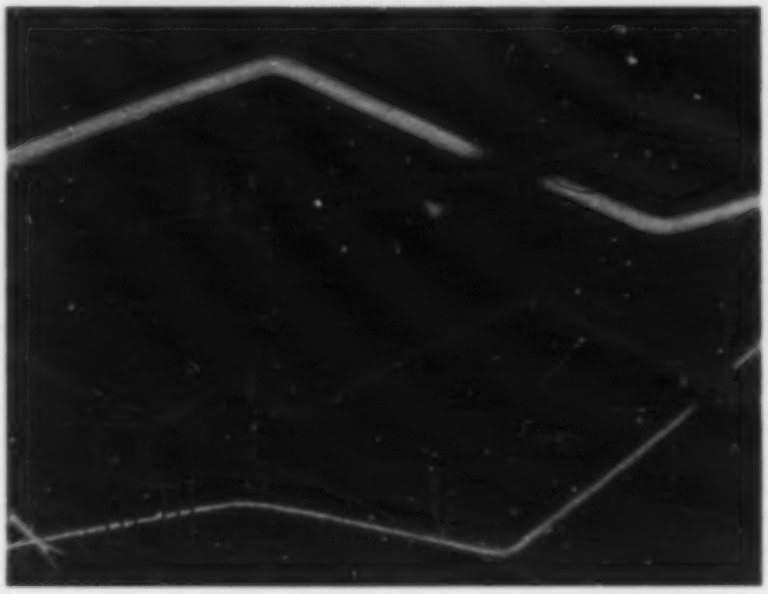

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INDUSTRY NEWS

Just-in-time inventory not living up to its potential, says APICS economist

FALLS CHURCH, VA—If the famous "Just in time," *Kanban* or zero-inventory concept were diligently applied to U.S. manufacturing, inventory stock requirements could be reduced by nearly two-thirds, says the American Production & Inventory Control Society (APICS).

In fact, points out APICS consulting economist, Dr. Michael K. Evans, using just-in-time techniques, current levels of inventory could be reduced from $285 billion to under $100 billion. Limiting inventory reduction to the metals/machinery/transportation equipment sector alone would still make it possible to reduce stocks from $140 billion today to about $50 billion, says Evans.

The resulting savings would lower the cost of our finished products by 30–40% and free billions of dollars for capital investment in the modernization and expansion of manufacturing facilities.

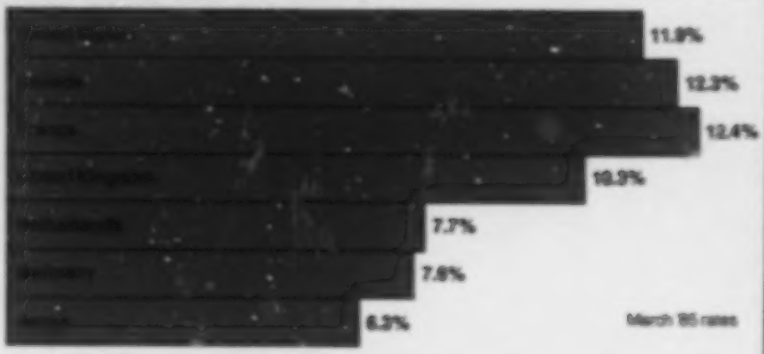
For the distributor, the just-in-time revolution would, theoretically at least, provide more systems contracts and an expanded customer base as domestic companies, able to compete internationally once more, increase production.

Unfortunately, says Evans, just-in-time in the U.S. has produced more talk than action. He notes, for example, that since 1983 the inventory/sales ratio in the manufacturing sector has declined only slightly from 1.65 to about 1.50 today despite a small short term dip to 1.41.

Furthermore, Evans notes that even the illusion of inventory reduction is more logically explained by increased *real* interest rates. Historically the I/S ratio has dropped by about .02% for each percentage point increase in the *real* rate of interest which is currently hovering around 6% compared to the traditional average of 2%.

Evans also points out that just-in-time inventory techniques do not come cheaply. He estimates that to achieve a radical transformation of inventory practices throughout the manufacturing sector would require a total cash outlay on the magnitude of $500 billion on capital expenditures.

Measured in *constant* 1972 dollars, APICS' consultant notes that investment in industrial equipment actually dropped from $47.2 billion in 1981 to $41.9 billion in 1984. Similarly, industrial plant investment fell from $18.8 billion in 1981 to $14.2 billion in 1984, in constant dollars.



High interest rates paid by U.S. long-term corporate bonds compared to those of Japan and other industrialized nations inhibit investment in U.S. capital expenditures.

"We see little improvement in these expenditures in 1985 for several good reasons," says Evans. "Capacity utilization in the manufacturing sector has declined to around 80%, an exceptionally low level for the third year of recovery.

"Even more important," Evans stresses, "is the cost of capital which is far too high, particularly compared to Germany and Japan. (see chart.)

"Thus the cost of modernization in this country is twice that of Japan. Even if U.S. industry were to shoulder the expense of switching production methods to take advantage of just-in-time technology, the capital costs would be far higher than in most other countries," Evans concludes.

Paints and coatings make strong comeback says new report

COMMACK, NY—Fueled by a vigorous rebound in most of its end-use markets, the U.S. paints and coatings industry has emerged from one of the darkest sales periods in its history, posting record high growth rates in virtually every product segment, says a new report from Business Trend Analysts.

According to the 245 page *The Paints and Coatings Industry*, the industry recorded double-digit growth in each of the last two years: 11.2% in 1983 and 12% in 1984 with annual sales reaching $10.8 billion.

And the report predicts that U.S. manufacturers' sales should increase at an annual rate of 6% over the next 10 years reaching $17.1 billion by 1993.

The study notes that architectural coatings comprise nearly 40% of industry sales. A slowdown in growth is forecast for this segment resulting from increasing use of unpainted materials for house and wall coverings including aluminum and PVC exterior siding.

In addition, the report points out that the reduction in the average dimensions of new private construction is resulting in less paint being required for these applications.

The report, priced at $595, is available from: Business Trend Analysts, 2171 Jericho Turnpike, Commack, NY 11725. □

Donald H. Cunningham named president by Hanson-Whitney Co.

HARTFORD, CT—The Hanson-Whitney Co., a manufacturer of rotary metal cutting tools for industry, named Donald H. Cunningham president recently.

Cunningham joined Hanson-Whitney in 1975 as controller and assistant secretary. He formerly served with the accounting firm of Coopers and Lybrand.

In 1976 he was promoted to the position of secretary-treasurer becoming vice president in 1980 as well as a director of the company.

At the same time, Hanson-Whitney announced the promotion of Robert F. Prindiville to the post of executive vice president. He had been serving the firm as vice president, sales. □

INDUSTRY NEWS...

Slow payment and business failures vex credit execs

NEW YORK—Ninety-four percent of the nation's business credit executives said that slow-paying customers are a problem while 86% cited customer failures as a problem, according to a recent survey of its members by the National Assn. of Credit Management (NACM).

According to the organization which comprises 45,000 business credit executives located throughout the country, members mentioned slow-paying customers as a *severe* problem most frequently (5%) while inadequate cash flow and unauthorized discounts, deductions and chargebacks were the second most frequently mentioned *severe* problems, each being named by 7% of respondents.

NACM defined their current (April '85) problems as follows:

	Severe	Moderate	Mild	No Problem
Falling sales	5%	28%	28%	43%
Customer failures	2	37	47	14
Excessive inventories	3	17	39	41
Inadequate sources of Supply	1	6	18	75
Slow-Paying customers	8	57	29	6
Interest rates	2	35	44	19
Need for automated Records	3	16	25	54
Availability of trained personnel	3	18	33	46
Inadequate cash flow	7	34	31	28
Unauthorized discounts/ Deductions/chargebacks	7	24	45	26

Trade expert says "We're shooting ourselves in the foot"

NEW YORK—America is "shooting itself in the foot" by ignoring many of the 48 specific recommendations of the President's Export Council, said Howard G. Sloane at a recent Annual World Trade Week reception held here on May 23.

Sloane

Sloane, a member of the executive committee of the President's Export Council and chairman of the 1985 World Trade Week Committee of the New York-New Jersey Port Area, said that of the 48 recommendations of the Export Council, at least five dealt specifically with export financing.

"The problem," said Sloane, "is that Congress has consistently reduced the lending capacity of the Exim Bank, rather than logically increasing it to meet the needs of exporters.

"How can we compete on an equal basis," asked Sloane, "when all our major trading partners provide preferential financing for their exports!"

Sloane emphasized that industrial distributors have a large stake in the trade deficit. "Not only are they losing domestic business to companies squeezed out by foreign competitors, but through their taxes and other means, they will ultimately have to help reduce the deficit itself." □

Telemecanique creates Marketing, Sales and Distribution Division

WESTMINSTER, MD—Telemecanique Inc., a manufacturer of industrial controls sold through a network of 535 distributors, announced the establishment of a new division.

Indicators . . .

Evidence of renewed vigor in the industrial sector was presented this month as all three key indices rose simultaneously for the first time in 14 months. The NIDA/SIDA *Industrial Distribution Index* rose 6.7 points nationally in April to reach 139.3. Significantly, strength was shown in all four regions with the West showing the greatest increase, moving ahead by 9.3 points over March. The April '85 figure is 4.7 points higher than the NIDA/SIDA April '84 level . . . SIDA's *Monthly Sales Trend Report* for March increased in every region from the February levels to score a 6.54 point national gain. SIDA Area 2 comprising FL, GA, SC, and Puerto Rico was the big winner with a 9.26 jump over the previous month while Region 3 taking in AL, KY, MS, and TN showed the smallest growth, advancing 1.55 points . . . Not to be outdone by the other two-thirds of the troika, ASMMA's *New Order Index* for March rose to 118.4 points, up two points from February. While by no means a record, the figure is higher than any levels attained in 1982 or 1983 . . . According to the American Machine Tool Distributors' Assn. (AMTDA), its *Distributor New Orders* increased an impressive 27.5% in March from the previous month to close at 75.2. The current figure is an infinitesimal .3% off from the March '84 level . . . the National Assn. of Aluminum Distributors (NAAD) *Quick Pulse Aluminum Service Center Index of* shipments for March indicates a 2.8 point increase over February to 116.8%. This compares with 118.4 points in March '84 . . . NWSA (National Welding Supply Assn.) reports a "great leap forward" in March to 1997 points, a 158 point improvement over February and 21.9 points over March '84. The new figure is the highest level recorded and, says NWSA, "sets a new record for the industry." . . . The National Wholesale Hardware Assn. (NWHA) *Hardware Sales Index* made it unanimous this month by increasing 7.1 points in March to 118.9. Regionally, the Northeast lost 6.4 points.

REGIONAL REPORT

April sales advance

After two straight months of decline, sales advanced 9% in April compared to April '84, and six percentage points higher than March's statistics.

Led by West North Central and Pacific regions, up 17% and 16% respectively, national reporting figures were all plus (combined statistics of both general liners and specialists) with no negatives indicated in regions or areas. Outside of the above two regions, however, all combined figures for other regions were in single digits.

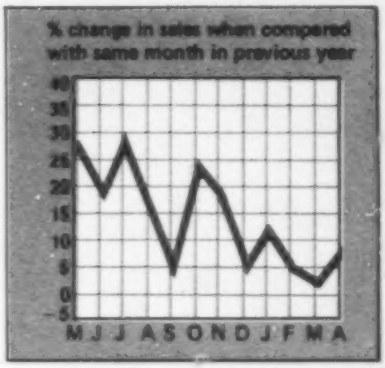
Month-to-month reporting, a more immediate indication of economic trends, barely managed a 0 or even figure for the country, with many negatives appearing in the list. The strongest region was Pacific, up 11%; the strongest area, Oregon-Washington, up 15%. The weakest region was Middle Atlantic, down 7%; the weakest area, Pennsylvania, down 14%. In comparison, month-to-month statistics for the U.S. in March were up 8%.

Cumulative reporting began to slip in April with the first four months of '85 showing only a 6% gain over the like period in '84. West South Central was the only region in the negative column, down 2%, but other regions and areas were also weak. The best regional 4-month gain was East North Central, up 11%; in areas, Ohio was strongest, up 16%.

Receivables stayed about even in April at 41 days each for general liners and specialists. Middle Atlantic had the highest figures; South Atlantic the lowest. □

RECEIVABLES*	April '85		vs. April '84	
	Gen.	Spec.	Gen.	Spec.
New England	45	46	45	45
Middle Atlantic	47	46	40	46
South Atlantic	35	38	36	36
East North Central	39	38	40	43
East South Central	39	—	36	—
West North Central	—	39	—	39
West South Central	—	40	—	41
Mountain	—	—	—	—
Pacific	40	42	43	43
National	41	41	40	42

*Average days outstanding



Sales gains ground in April . . .

SALES BY REGIONS (% change)	April '85 vs March '85 Gen.	Spec.	Both	April '85 vs. April 84' Gen.	Spec.	Both	First 4 months '85 vs. First 4 months '84 Gen.	Spec.	Both
NEW ENGLAND: CT, RI, MA, NH, VT, ME	−1	−1	−1	+7	+9	+8	+5	+11	+8
Connecticut	−6	—	—	+9	—	—	+4	—	—
Massachusetts	+1	—	—	+13	—	—	+7	—	—
MIDDLE ATLANTIC: NY, NJ, PA	−8	−7	−7	+7	+2	+4	+8	+4	+6
New York Metropolitan Area	—	—	—	—	—	—	—	—	—
Upstate New York	—	—	—	—	—	—	—	—	—
Pennsylvania	−20	−9	−14	+6	+9	+8	+14	+9	+11
SOUTH ATLANTIC: DE, DC, MD, FL, GA, NC	−1	−6	−4	+5	+2	+4	+5	+3	+4
SC, VA, WV									
Georgia - Florida	+2	−6	−3	+24	−1	+9	+19	+3	+9
EAST NORTH CENTRAL: OH, IN, IL, MI, WI	+1	−7	−3	+8	+21	+14	+7	+16	+11
Indiana	—	—	—	—	—	—	—	—	—
Wisconsin	—	−9	—	—	+18	—	—	+13	—
Chicago	—	—	—	—	—	—	—	—	—
Michigan	−3	—	—	+6	—	—	+9	—	—
Ohio	0	−7	−4	+17	+25	+21	+10	+21	+16
EAST SOUTH CENTRAL: AL, MS, KY, TN	—	−1	—	—	+4	—	—	+3	—
WEST NORTH CENTRAL: MN, ND, SD, IA, NE, KS, MO	−5	+16	+8	+5	+24	+17	+4	+6	+6
WEST SOUTH CENTRAL: AR, LA, OK, TX	+3	+5	+4	+1	−2	0	0	−3	−2
Texas	—	−9	—	—	−6	—	—	−3	—
MOUNTAIN: NM, AZ, CO, UT, NV, WY, MT, ID	−13	—	—	+4	—	—	+5	—	—
PACIFIC: CA, OR, WA	+11	+11	+11	+13	+16	+14	+14	−4	+10
L.A.-San Diego	—	—	—	—	—	—	—	—	—
Oregon-Washington	+14	+16	+15	+28	+18	+23	+21	−6	+7
U.S. TOTALS	+1	−3	0	+9	+11	+9	+6	+7	+6

'84 sales show sharp gains; profits up

In just about every category, statistics for 1984 compared to 1983 are outstanding. The resumption of sales growth in overall statistics for the entire industrial distribution industry provides welcome relief from two straight years of declining sales and substantial business losses.

In what was a robust year for distributors, sales volume for the industry broke the slide of the past two years and recovered smartly, rising from $42 billion to $47.4 billion, a gain of 12.9% which exceeds the 10.7% gain in the Federal Reserve Board's *Index of Industrial Production* (see graphs).

While 1984 gross profits appear flat when compared to 1983, the net profit both before taxes and after taxes for general liners and specialists are up significantly. The tightening up of business operations during and following the 1982-83 recession has undoubtedly played a major role in the profit picture, increasing productivity while reducing expenses. (See graphs and figures under Operating Costs.)

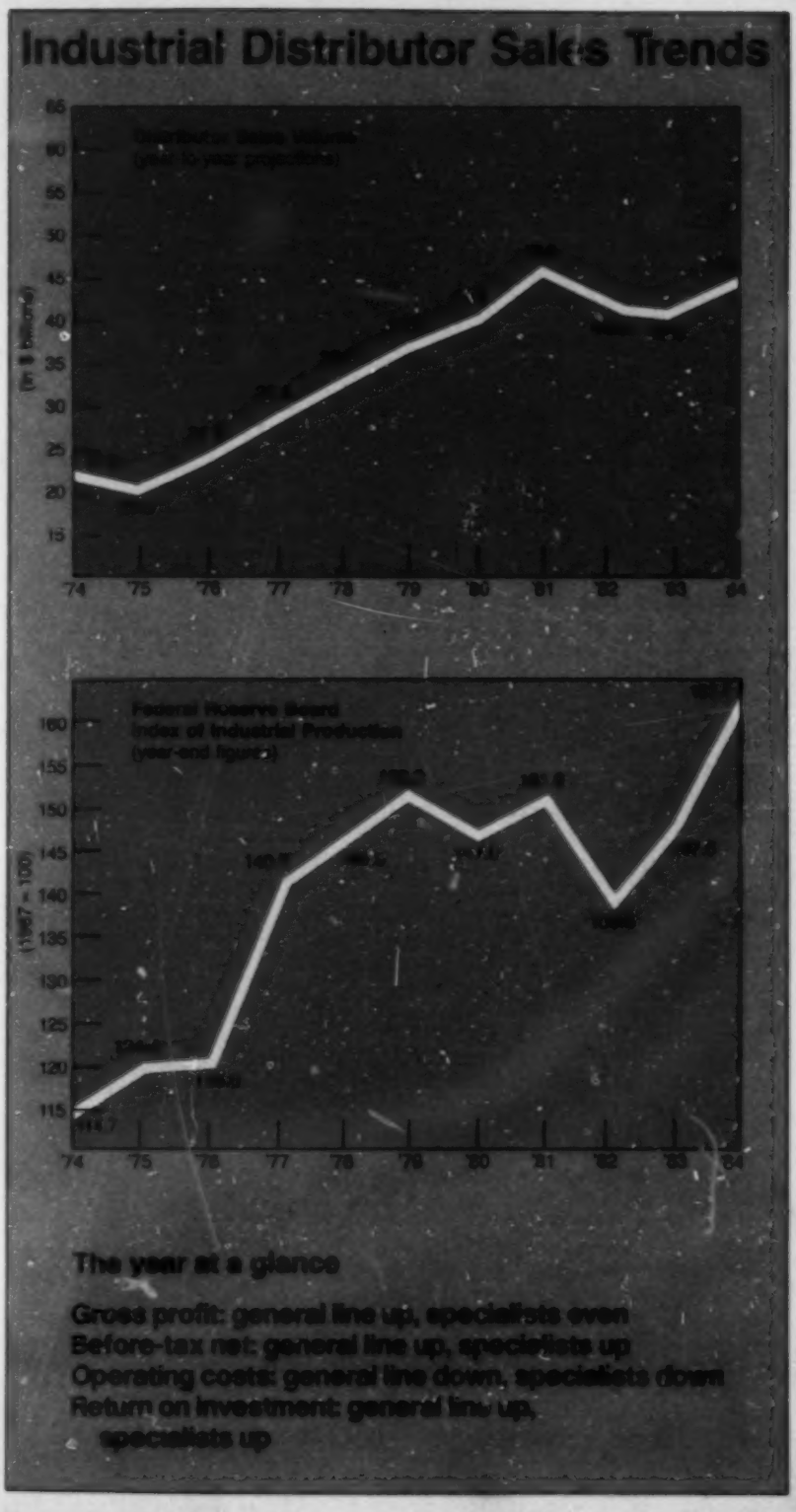
The low-inflation factor

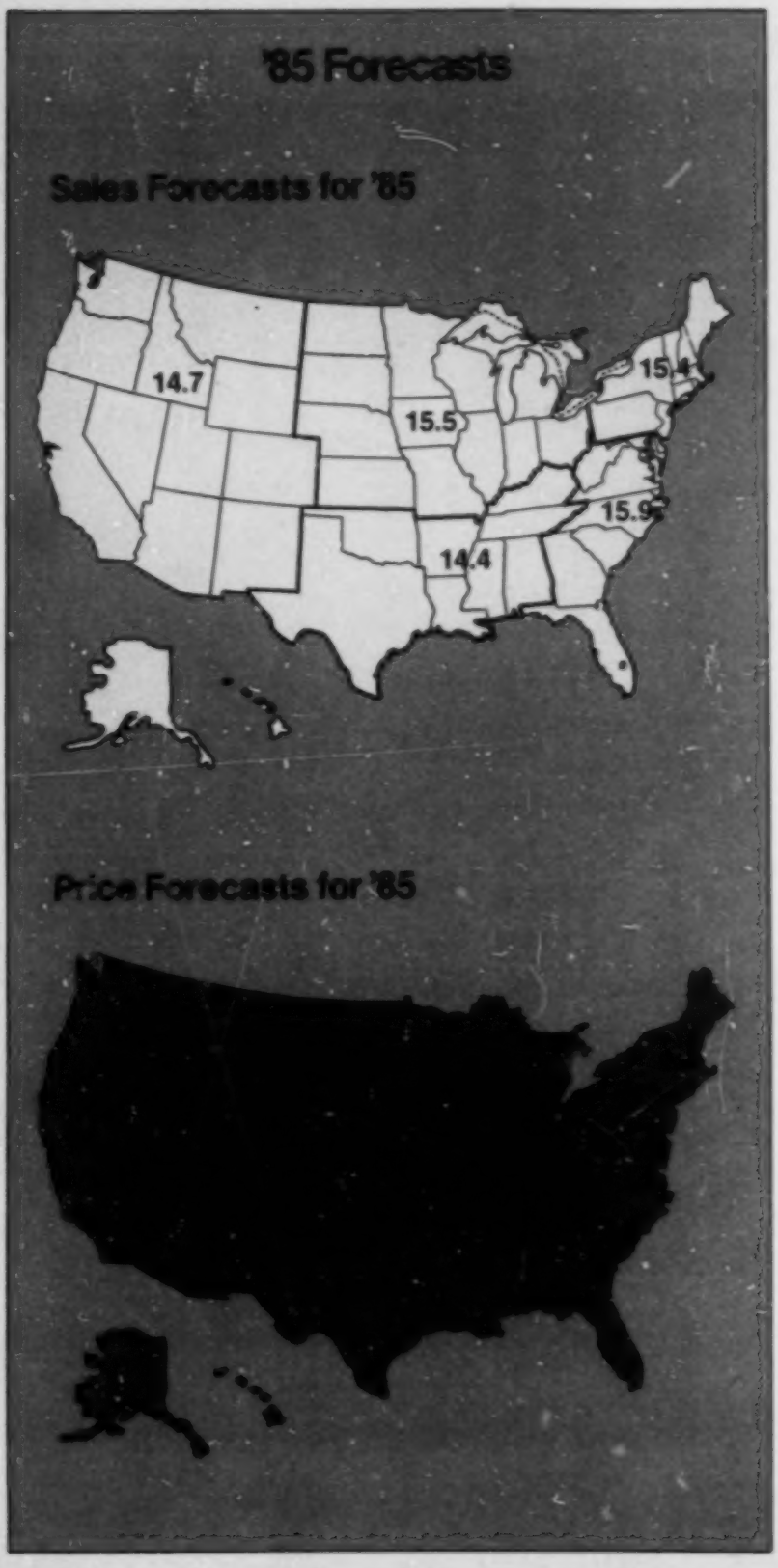
Because inflation was low throughout 1984—a phenomenal occurence during a period of business expansion—labor costs as well as the costs of suppliers' goods were not the dominant, all-consuming subjects for distributors as they have been in the past. This enabled distributors to concentrate their time and energy on other aspects of their operations such as taking on added new product lines, new or increased product specialization, and further business expansion through opening new branches or in some instances, acquisitions.

Another area getting special attention was data processing, with over two-thirds of all distributors surveyed now claiming to be computerized, that is, presently utilizing their own computer system in-house. This is further corroborated by the high percentages of what used to be manual tasks now given over to a computer application. (See graphs and figures under Computer Usage.)

Acquisition activity to continue

According to *ID's* survey, approximately 35% of general liners and 27% of specialists were approached with an acquisition offer in 1984; some 29% general


Industrial Distributor Sales Trends
Distributor Sales Volume
(year-to-year projections)
(In $ billions)
Federal Reserve Board
Index of Industrial Production
(year-end figures)
(1967 = 100)
74 75 76 77 78 79 80 81 82 83 84
The year at a glance
Gross profit: general line up, specialists even
Before-tax net: general line up, specialists up
Operating costs: general line down, specialists down
Return on investment: general line up,
specialists up



liners and 25% specialists state they would welcome an acquisition offer at present; and approximately 16% of the general liners queried and 14% of the specialists are actively seeking the acquisition of another industrial distributor. With these high percentages, acquisition activity is almost sure to continue in the industry, if not accelerate.

A major reason for the activity has been and still is the substantially high interest loan rates relative to economic growth (GNP) and inflation. Rather than expand, take on new lines and stock and sell new inventory to increase the range of customers (costly and risky propositions), a strategic acquisition allows all three to take place simultaneously. An acquisition can instantly bring in new customers, expand territory, and increase product lines.

Forecast: sunny!

Distributor forecasts from all regions of the country predict double digit increases for '85 sales. The highest prediction of 15.9% comes from the South Atlantic region; the smallest gain, 14.4% from the Southern region.

Price forecasts indicate a belief in a modest rise in inflation, with prices increasing to a high of 5.8% in the Midwest region, to a low of 5.4% in the Northeast region.

Distributor optimism for the remainder of this year on into next year can be measured in two very important areas: plans to increase warehouse space, and hiring new outside salesmen.

Approximately 25% of both general line and specialist distributors plan on increasing warehouse space in 1985.

Both general liners and specialists plan on increasng outside salesmen in '85 over the number employed in '84. (See Personnel Statistics for details.)

Medians and averages

All percentages used in this survey are medians, unless otherwise specified.

The median number is the number which is larger than or equal to half of the other numbers, and equal to or smaller than the other half. For example: in series 4, 4, 5, 7, 10, the median is 5. The average of this series is 6, computed by totaling the five numbers (30) and dividing by the number of numbers (30÷5).

The median number, then, is more representative of a group being surveyed because it will not be distorted by either extreme: very large or very small numbers.

Profit and Loss

Gross profit was effectively flat in '84, increasing a minute 1.9% for general liners and decreasing 0.7% for specialists.

Net profit before tax, however was quite healthy, increasing 24.3% for general liners and 38.7% for specialists; net profit after tax was up 47% and 50%, respectively.

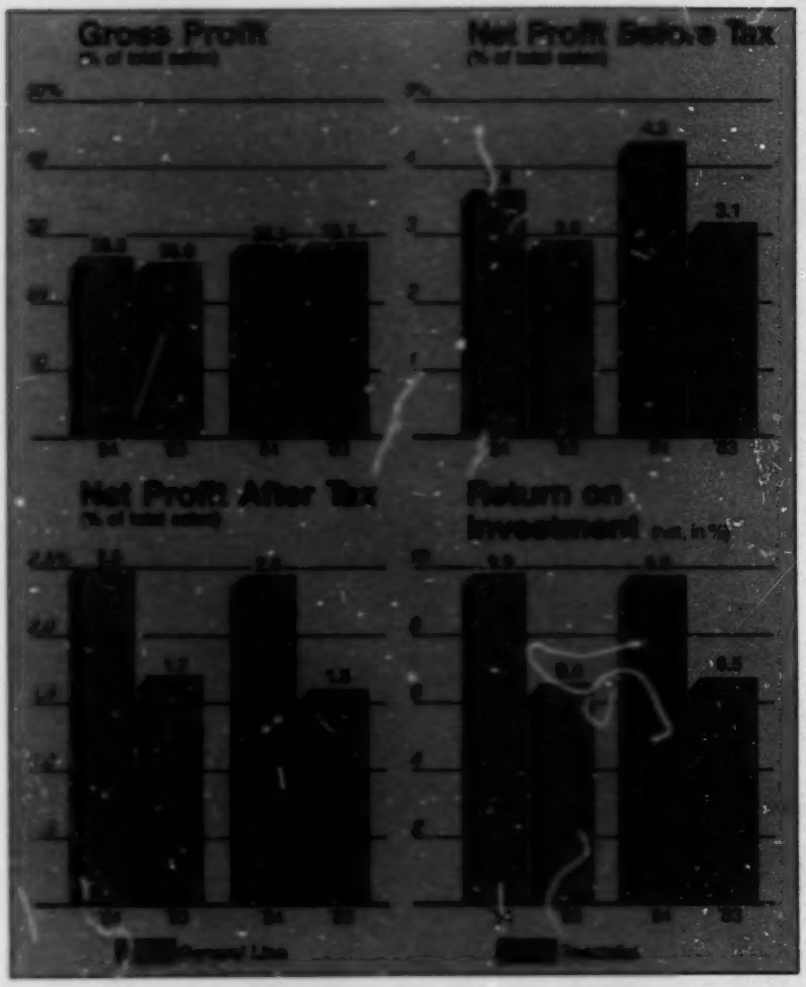
The return to increased sales and profits is reflected in the figures for return on investment with general liners up a hefty 54.7% and specialists an impressive 50.8%. These figures are more than double the return on investment reported in *ID*'s 1983 survey.

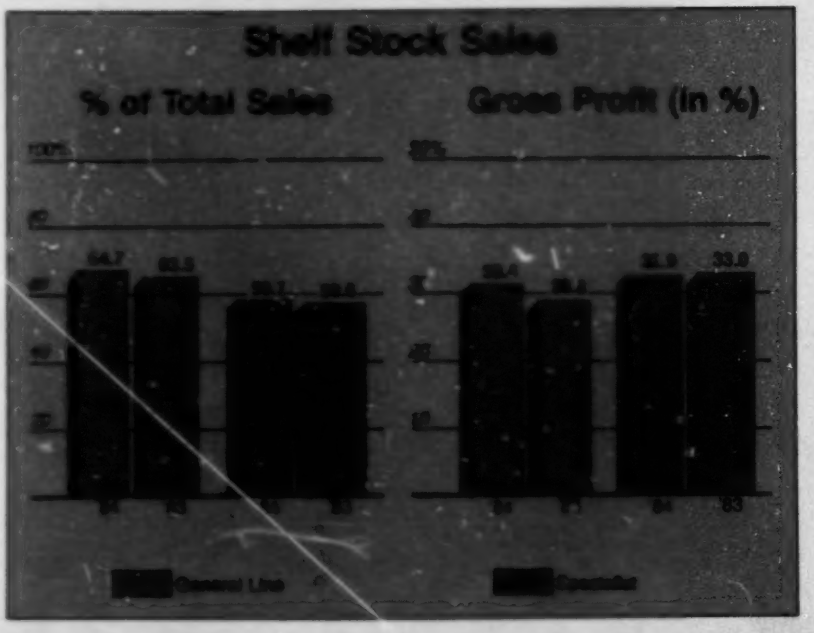
Shelf stock sales, as a percent of total sales, was up 1.9% for general line distributors, and 0.2% for specialists.

The cost of goods sold as a percent of total sales, the reciprocal of gross profits, stayed approximately the same in '84 compared to '83 for both general liners and specialists at 74% and 72%, respectively. (These figures are not plotted graphically.)

Sales via systems contracts appear to be on the rise among distributors who for the first time are indicating significant gains in the percentage of systems sales over the previous year, and as a percentage of total sales. For general liners, systems selling increased from 8.5% of total sales in 1983, to 12.2% in 1984. This represents an increase of 43.5%. For specialists, systems selling increased from 6.8% of total sales in 1983, to 12.5% in 1984. This represents an increase of 83.8%.

With lower operating expenses and moderate compensation costs, the profit and loss picture for industrial distributors was better in 1984 than it has been in quite a few years.





39th Annual Survey of Distributor Operations

Operating Costs

Total operating expenses fell for distributors in 1984, dropping 5.6% for general liners and 2.3% for specialists, when compared to 1983.

Also dropping were total insurance costs, down 2.4% for general line distributors and 20.1% for specialists. Surprisingly, inside EDP costs fell 20.8% for general liners while rising 25% for specialists; outside EDP costs increased 25% for general line distributors and 50% for specialists.

Very promising figures, indicative of the '84 upturn, are sales per employee and gross profit per employee.

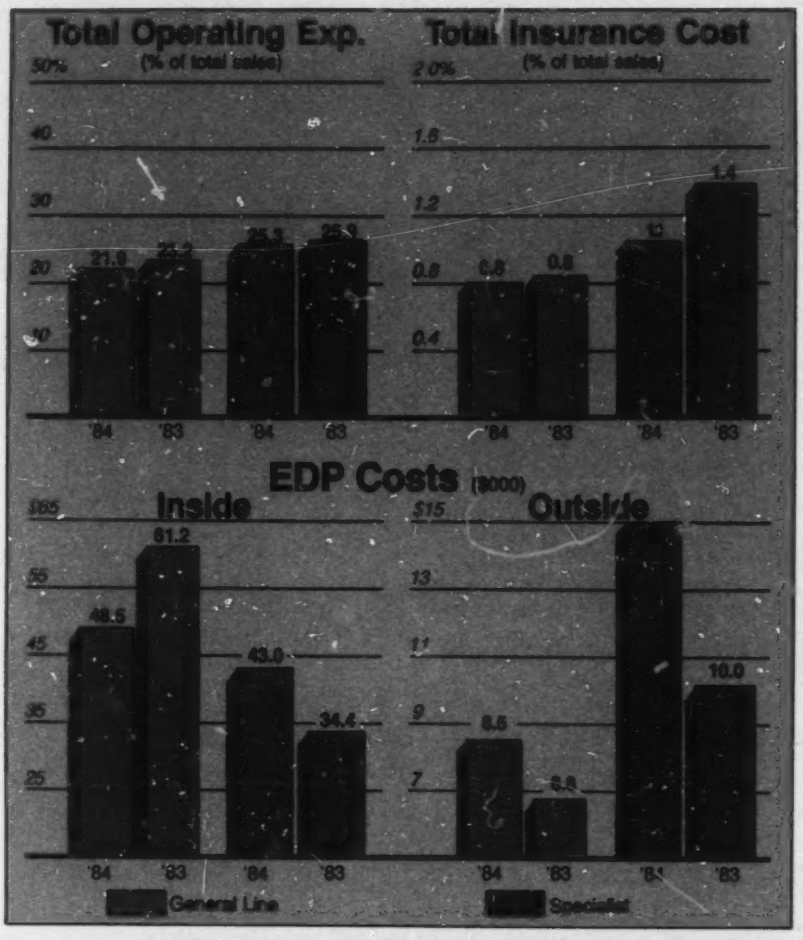
Sales per employee gained $10,400 from 1983 to 1984, or 7.3% for general liners; the gain was $9800 or 6.7% for specialists.

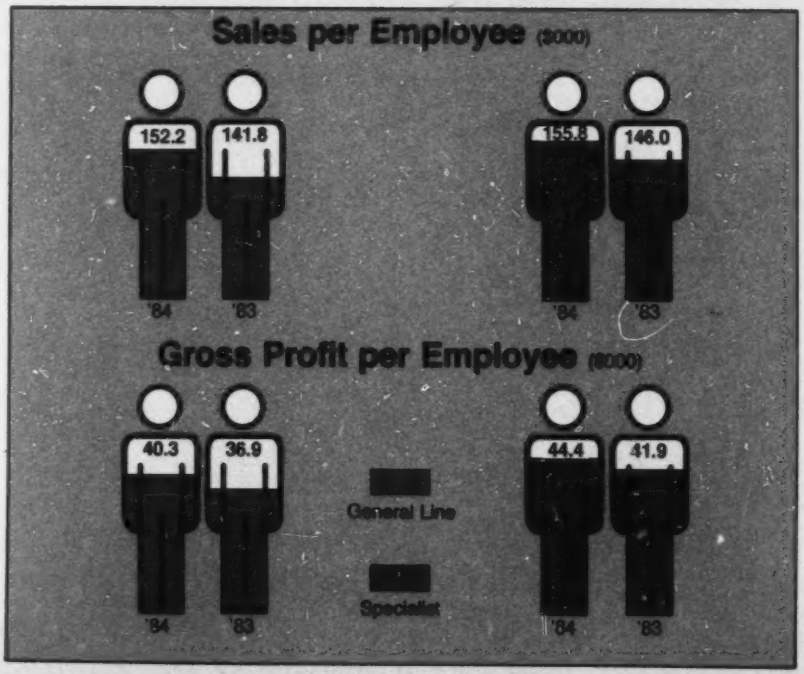
Gross profit per employee rose $3400 or 9.2% for general line distributors, 1984 compared to 1983; the increase was $2500 or 6% for specialists.

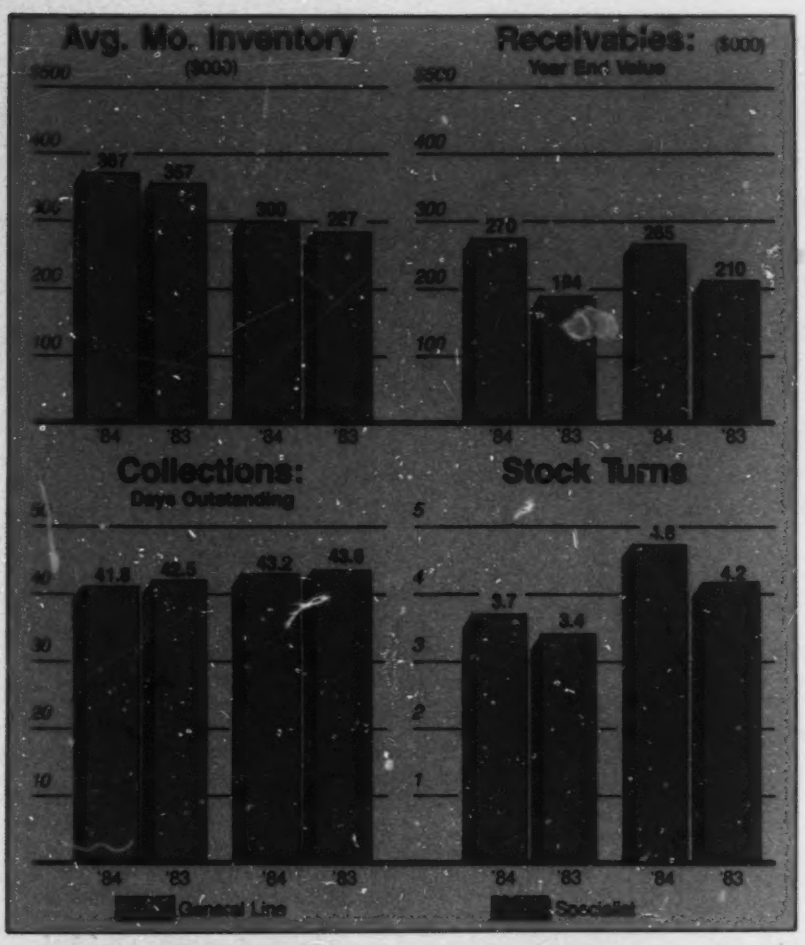
In product liability statistics, 27% of general liners surveyed, and 28% of the specialists report being involved in product liability law suits in 1984. The median cost was $2500 for general liners, $5000 for specialists. This figure is not plotted graphically.

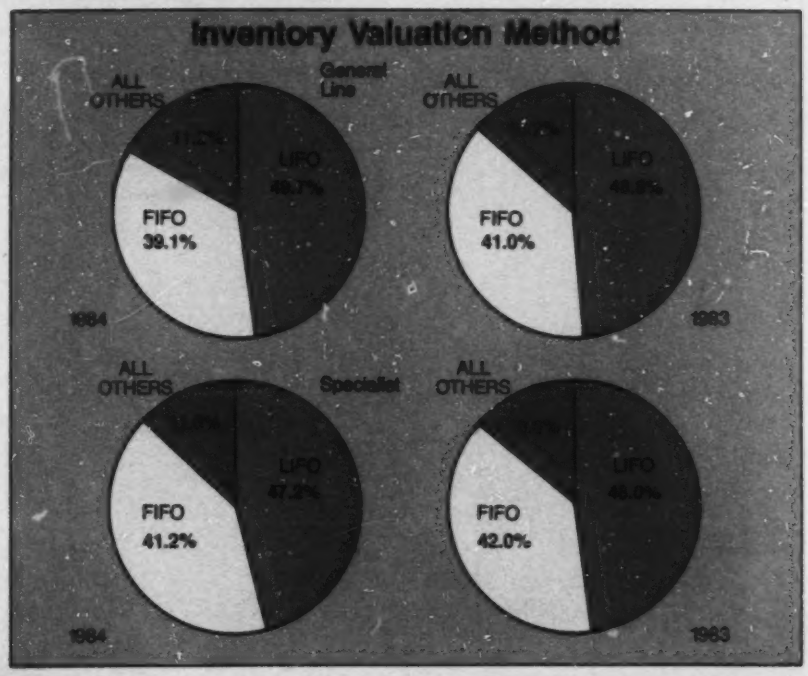
Approximately 6% of both general liners and specialists revealed an increase in product liability insurance in 1985, while an insignificant number had decreases. This indicates little change in the cost of product liability insurance in 1985 for distributors.

However, no figures have as yet been obtained on claims paid out by insurance companies (in and out of court) based on lawsuits against distributors. Because these often take years to settle, it will be some time before it can be determined if these payouts are increasing substantially, following liability settlements in other industries and professions.









Inventory Data

Average monthly inventory, receivables and stock turns all rose in 1984, while collections (days outstanding) fell slightly.

Inventory figures were modest, increasing $10,000 monthly or 2.8% for general line distributors, and $13,000 or 4.5% for specialists.

Accounts receivable (year end value) increased substantially for both general liners and specialists, rising 39.2% and 26.2% respectively.

Stock turns, one of the most difficult figures to increase substantially, managed a respectable rise of 8.8% for general line distributors and 14.3% for specialists, 1984 compared to 1983.

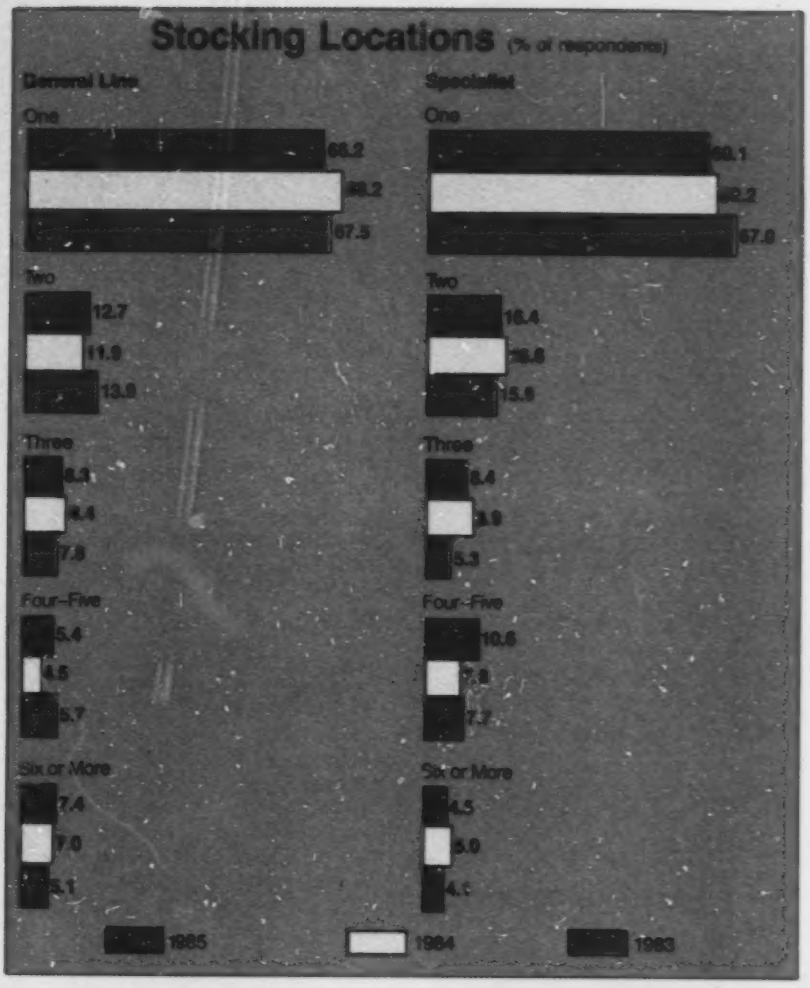
Stock turns are calculated by multiplying the percent of shelf stock sales at cost by total sales, and dividing the result by the average monthly inventory value.

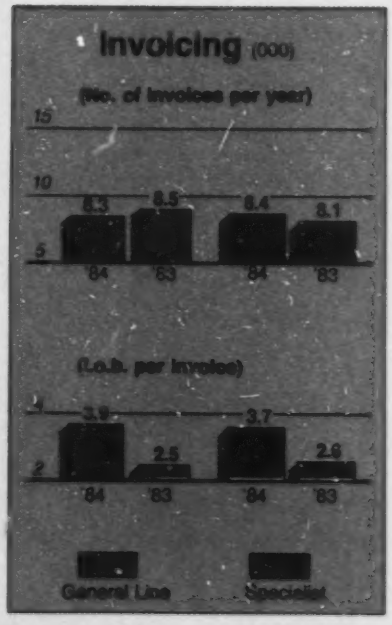
Collection figures are now commonly above 40 days, even though in the late '70s and early '80s, the mid to upper 30s were more common. With 1984's low inflation rate, and little erosion of the buying power of the dollar, these figures have stayed stubbornly high. The 1984 figures for general liners is 41.8 days, a slight drop over 1983's 42.5 days. For specialists, the 1984 figure of 43.2 days is almost flat compared to 43.6 days in 1983.

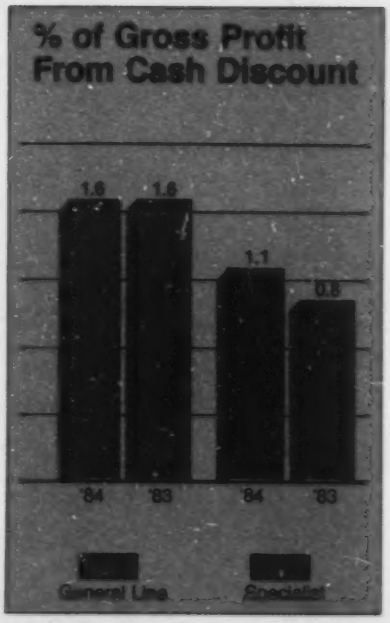
The percentage of LIFO and FIFO users shows little change in 1984 compared to 1983 for both general liners and specialists.

For general liners, LIFO increased by 1.8% while FIFO fell by 4.9%, 1983 to 1984. For specialists, LIFO fell 1.7% and FIFO fell also, by 1.9%.

For both category of distributors, an increase was recorded in the use of "other" accounting methods: 9.8% for general liners, 16% for specialists.







Business Trends

Distributor stocking locations did not show appreciable differences in 1984 and (expected) 1985, except in the higher categories. After declining during the recession years, stocking locations, especially among the larger distributors, are once again on the increase.

In the two stocking locations category (all categories include a distributor's corporate headquarters), general liners showed an increase of 6.7% over 1984, which in turn had declined 14.4% from 1983's figures. Specialists declined 1.2%, expected 1985 vs. 1984, and had a 4.4% rise, 1984 vs. 1983.

The most appreciable change, expected 1985 against 1984, is in the four-five stocking locations category. General line distributors were up 20% while specialists gained 45.2%.

In the six or more category, results were mixed for 1985, although 1984 statistics show similar results with general liners up 37.3% and specialists 22% over 1983. For 1985, general liners were up 5.7% while specialists declined 10% compared to 1984.

In invoicing statistics, the number of invoices per year show mixed results, general liners declining 2.4% while specialists gained 3.7%. The lines of billing per invoice were unmistakeably higher, general liners increasing 56% and specialists up 42.3%.

The % of Gross Profit From Cash Discounts was flat for general liners while increasing 27.3% for specialists. A good many of the respondents "roughed in" these figures as distributors still find it difficult to accurately calculate at the end of the year how much of their sales came from discounting.

Personnel Statistics

Total personnel increased in 1984, as did the categories for inside and outside sales for both general liners and distributors. In 1985, this trend continued for both inside and outside sales.

The total number of full time employees increased 3% for general line distributors, or from 13.4 to 13.8 employees, and 12.4% or 13.7 to 15.4 employees for specialists in 1984 compared to 1983.

In the outside sales category, the increase was 16.1% for general liners from '83 to '84, followed by an additional 13.9% increase for '85. For specialists, an increase of 2.8% in '84 against '83 was followed by an increase of 16.2%, '84 to '85.

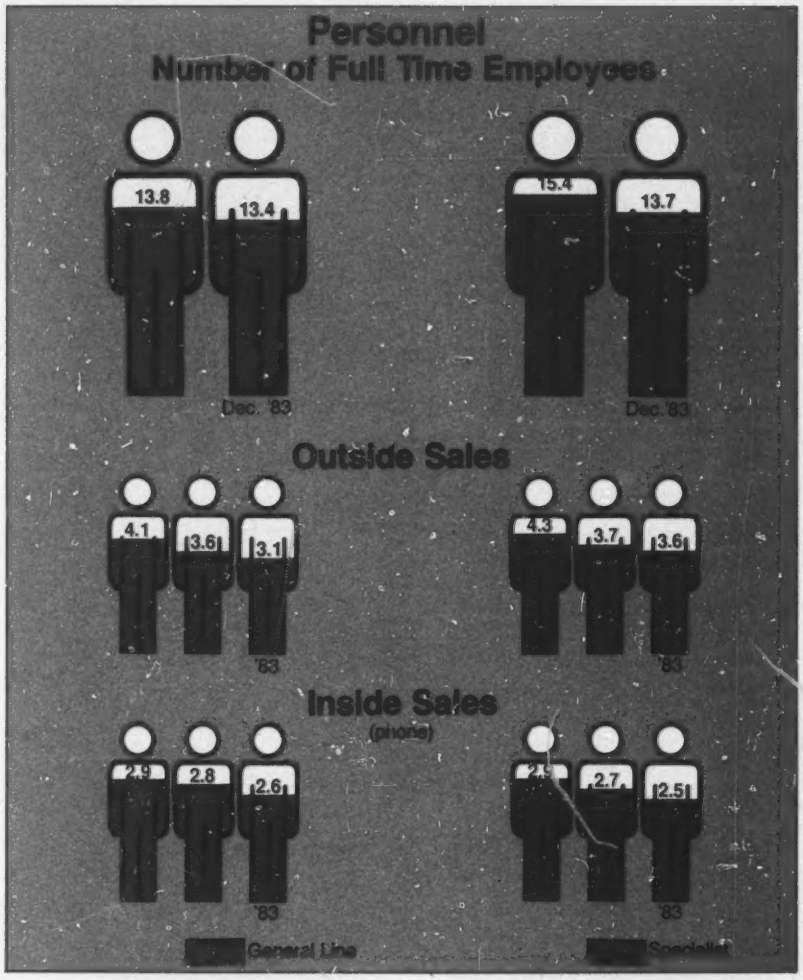
A slower but steady increase is also noted in inside sales. For general liners, the increase was 7.7%, '84 over '83, and 3.8%, '85 over '84. For specialists, the gain was 8%, '84 over '83, and 7.4%, '85 over '84.

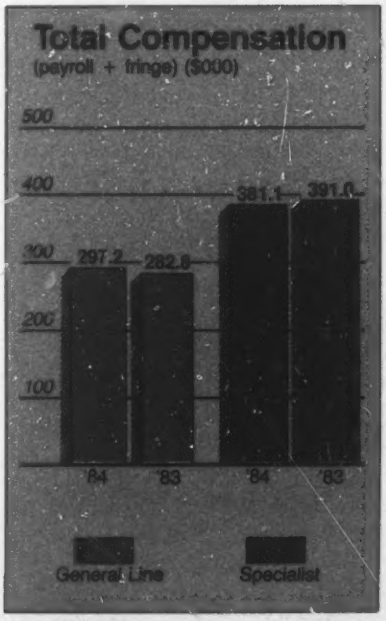
Total compensation figures were mixed. For general liners, total compensation increased by $14, 400, or 5.1% , with specialists declining $9900, or 2.5%, 1984 vs. 1983.

Total warehouse space increased for both general liners and specialists in 1984 over 1983. For general liners, the increase was 4.2%; for specialists, 7.5%.

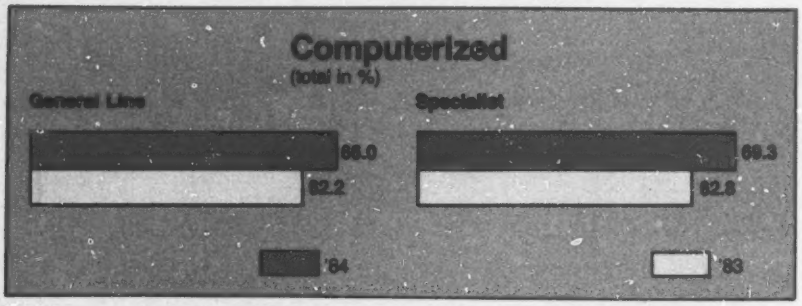
22.6% of the general line distributors and 26.3% of the specialists queried intend to increase warehouse space in 1985, general liners by 2900 sq ft, specialists by 3900 sq ft.

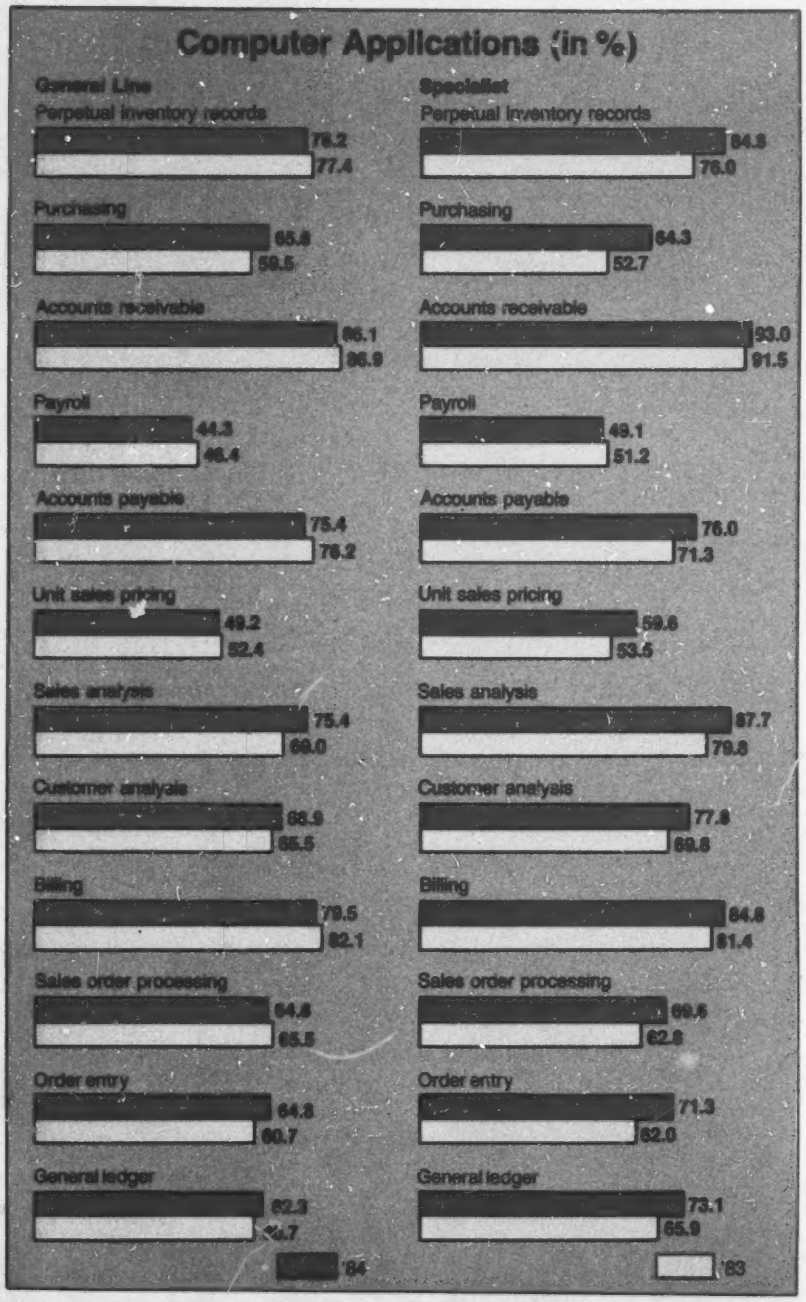
Only 2.4% of the general liners and 3.4% of the specialists in the survey indicated an intent to reduce warehouse space in 1985.





39th Annual Survey of Distributor Operations





Computer Usage

The use of computers by industrial distributors continues to increase in yearly comparisons as do computer applications.

For general liners, 6.1% more distributors were computerized in '84 compared to '83. For specialists, the increase was 10.4%.

Over 90% of both general liners and specialists are now utilizing inside systems as compared to outside services. (These figures are not plotted graphically.)

There are now 12 major categories of computer applications with accounts receivable, sales analysis, and perpetual inventory records up among the top uses. Payroll is still at the bottom of the list, as many distributors who started using outside services for this purpose are satisfied or if not, are reluctant to change. Confidentiality may be another reason distributors prefer an outside service for payroll.

The largest increase in percentage points, year-to-year, was purchasing in the general line category which increased over six percentage points from 59.5 to 65.6. For specialists, customer analysis was the most popular increasing eight percentage points from 69.8 to 77.8.

The order of use based on preference is for general liners: (1) accounts receivable, (2) billing, (3) perpetual inventory records, (4) accounts payable, (5) sales analysis, (6) customer analysis, (7) purchasing, (8) order entry, (9) sales order processing, (10) general ledger, (11) unit sales pricing, (12) payroll. For specialists the preference is: (1) accounts receivable, (2) sales analysis, (3) billing,(4) perpetual inventory records,(5) customer analysis, (6) accounts payable, (7) sales order processing, (8) general ledger, (9) order entry, (10) purchasing, (11) unit sales pricing, (12) payroll.

Condensed table for comparison and analysis

	National '84	National '83	Your figures	Northeast '84	Northeast '83	Your figures
Total sales ($millions)	2.3	2.0		1.9	1.7	
Sales from stock (% of total sales)	73.3	73.2		73.0	72.1	
Gross profit (% of total sales)	27.6	27.4		27.1	26.6	
Total operating expenses (% of total sales)	23.7	24.6		25.0	24.3	
Net profit before tax (% of total sales)	4.0	3.0		3.4	2.3	
Net profit after tax (% of total sales)	2.4	1.6		1.8	1.5	
ROI (return on net worth)	10.0	6.6		8.0	7.0	
Sales per employee ($000)	155.4	148.1		169.6	154.5	
Gross profit per employee ($000)	42.9	40.1		46.0	41.1	
Monthly inventory value ($000)	329.0	309.0		286.0	271.0	
Receivables value as of Dec. 31 ($000)	261.0	198.0		220.0	188.0	
No. days outstanding at Dec. 31	42.5	43.1		42.9	44.0	
No. of invoices billed (000)	8.4	8.2		8.5	8.1	
No. of lines of billing per invoice	3.7	2.5		4.0	2.5	
No. of employees	14.8	13.5		11.2	11.0	
No. of outside salesmen	3.7	3.4		3.1	2.9	
No. of inside (phone and counter) salesmen	4.0	3.7		4.0	3.7	
Warehouse sq ft (000, including branches)	9.1	8.6		8.0	7.8	
No. of branch locations (avg.)	1.3	1.2		1.2	1.1	
Total compensation (avg., $000)	342.1	347.2		341.2	297.5	

	South Atlantic '84	South Atlantic '83	Your figures	North Central '84	North Central '83	Your figures
Total sales ($millions)	3.3	2.9		2.6	2.0	
Sales from stock (% of total sales)	72.9	73.2		75.2	74.5	
Gross profit (% of total sales)	28.2	27.9		25.8	25.3	
Total operating expenses (% of total sales)	23.8	24.3		21.8	24.2	
Net profit before tax (% of total sales)	4.2	3.4		3.5	2.0	
Net profit after tax (% of total sales)	3.0	2.2		1.9	1.0	
ROI (return on net worth)	15.4	10.0		8.5	4.6	
Sales per employee ($000)	164.2	172.6		164.0	125.0	
Gross profit per employee ($000)	46.3	48.2		42.5	31.6	
Monthly inventory value ($000)	367.0	300.0		333.0	325.0	
Receivables value as of Dec. 31($000)	300.0	214.0		292.0	217.0	
No. days outstanding at Dec. 31	40.1	41.3		42.4	43.3	
No. of invoices billed (000)	11.0	10.5		8.0	8.3	
No. of lines of billing per invoice	4.4	2.3		3.4	2.4	
No. of employees	20.1	16.8		15.8	16.0	
No. of outside salesmen	4.2	3.5		4.3	4.2	
No. of inside (phone and counter) salesmen	5.7	5.4		3.6	3.4	
Warehouse sq ft (000, including branches)	11.7	9.5		8.8	8.4	
No. of branch locations (avg.)	1.6	1.5		1.3	1.3	
Total compensation (avg., $000)	474.0	423.5		436.4	471.3	

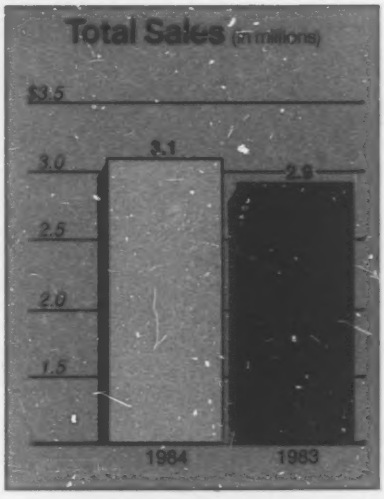
	South Central '84	South Central '83	Your figures	West '84	West '83	Your figures
Total sales ($millions)	2.1	1.7		2.2	2.1	
Sales from stock (% of total sales)	72.4	74.1		71.7	70.9	
Gross profit (% of total sales)	29.0	28.0		30.6	32.5	
Total operating expenses (% of total sales)	22.7	22.8		25.0	26.1	
Net profit before tax (% of total sales)	6.0	4.8		4.1	4.6	
Net profit after tax (% of total sales)	4.0	2.6		2.9	2.5	
ROI (return on net worth)	10.4	8.0		7.5	8.5	
Sales per employee ($000)	152.2	119.7		141.0	168.0	
Gross profit per employee ($000)	44.1	33.5		43.2	54.6	
Monthly inventory value ($000)	220.0	188.0		475.0	431.0	
Receivables value as of Dec. 31 ($000)	233.0	178.0		273.0	250.0	
No. days outstanding at Dec. 31	42.1	42.0		43.5	43.8	
No. of invoices billed (000)	9.2	9.1		6.7	6.4	
No. of lines of billing per invoice	3.7	2.6		3.7	3.0	
No. of employees	13.8	14.2		15.6	12.5	
No. of outside salesmen	3.4	3.2		3.7	3.5	
No. of inside (phone and counter) salesmen	4.0	3.9		3.7	3.5	
Warehouse sq ft (000, including branches)	14.4	13.2		9.0	8.3	
No. of branch locations (avg.)	1.3	1.3		1.3	1.2	
Total compensation (avg., $000)	272.1	285.5		315.5	360.0	

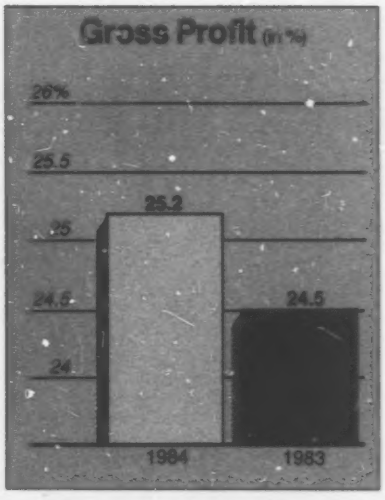
Note: All figures are in medians, except where averages are specified.

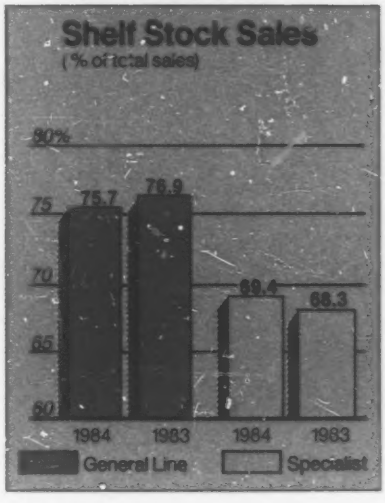
Survey continues on next page

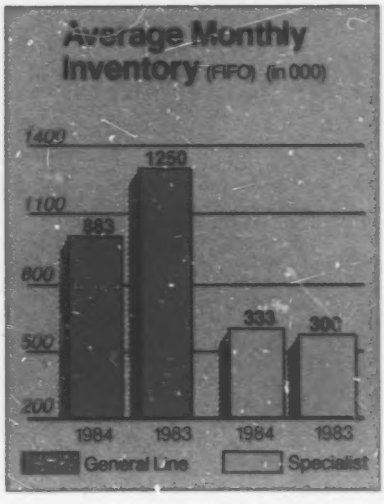
Combination Houses

For the first time in its 39 year history, INDUSTRIAL DISTRIBUTION's Annual Survey of Distributor Operations includes data on Combination Houses. Until now, the Survey had focused exclusively on general line and specialist firms that qualified under *ID*'s strict criteria for industrial distributors. Combination Houses are those that sell a substantial volume of equipment and supplies to industry *plus* products that are not generally considered purely industrial, for example, automotive parts, wholesale electric, plumbing and heating.









Increases in sales and profits fuel expansion plans

Combination houses taken together had increased sales of 6.9% in 1984 compared to 1983 (see graph). Classified by type, specialists fared better than general line houses, increasing sales 28.6% (or from $1.4 million to $1.8 million). General liners were up 7.3% (or from $4.1 million to $4.4 million).

Gross profit for all combination houses increased 2.9% in 1984 over 1983. Classified by type, general liners were up 4.1% (from 24.4 to 25.4%) while specialists were up only 0.4% (from 25.7 to 25.8%).

According to *ID*'s survey, a significant number of combination houses are planning to expand in 1985, expressing optimism down the line. Some 52% of the general line houses, and 53.6% of the specialists responding to the question, "Do you plan to expand in 1985?" replied affirmatively.

These figures are further supported by planned increases in sales personnel. General liners are planning a 9.8% increase in outside salesmen over 1984; specialists 10.3%. For inside sales, general line houses are planning an increase of 7.3%; specialists, 3.6%.

Although 1985 intentions as to warehouse space was not part of the survey, statistics indicated a gain for general liners from 24,100 sq ft in 1983 to 24,500 sq ft in 1984, or 1.7%, with specialists showing a drop from 8400 sq ft in 1983 to 7000 sq ft in 1984, or a loss in space of 16.7%. By region, South Atlantic and North Central gained space; West and Northeast lost; South Central was even.

Volume, stock turns up as all major areas contribute

Combination houses, as would be expected, do a brisker business in walk-in sales than distributors that sell only to the industrial market. Over 10% of the total sales of combination houses came from walk-in business both in 1983 and 1984. The increase, year-to-year, was slightly less than 1%.

Of the goods sold other than industrial by combination houses, the leaders were plumbing and heating, electrical, and hardware. These were followed by automotive and metal service centers.

All of the major areas helped swell sales, increase monthly inventory values as well as stock turns in 1984. For general liners, stock turns increased from 2.5 in 1983 to 3.8 in 1984, or 52%; for specialists, stock turns increased from 3.2 in 1983 to 3.8 in 1984, or 18.8%.

The average monthly inventory value for general liners decreased from $883,000 in 1983 to $1,250,000 in 1984; for specialists, from $300,000 in 1983 to $333,000 in 1984.

The median figure for the number of invoices billed in 1984 was 46,300 for general liners and 10,900 for specialists.

Sales and price forecasts healthy; receivables improve

Without exception, distributors in all areas of the country have forecasted sales increases for 1985 in double digits, and price increases in single digits.

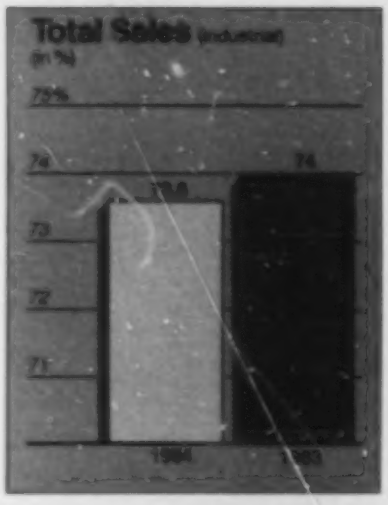
Combination house distributors predict a sales increase of 14.3% for this year, with the Northeast and South Atlantic regions predicting the highest figure, 15%, and the South Central the lowest, 12.5%.

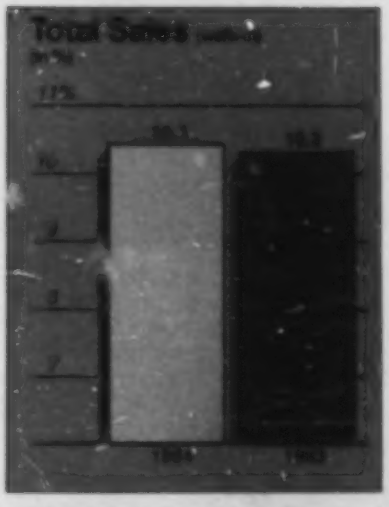
In price forecasting, the median price increase was 5.6% for 1985, the highest increase of 6% coming from the South Atlantic region, the lowest increase, 5.2%, from the Western region.

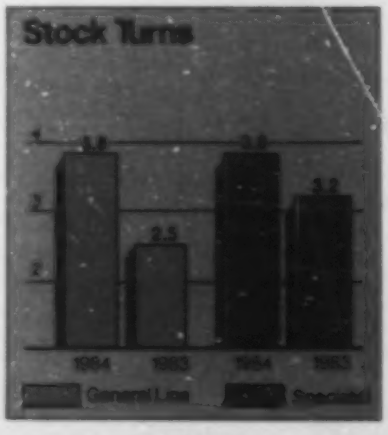
In days outstanding for receivables, a slight improvement was recorded over 1984 figures.

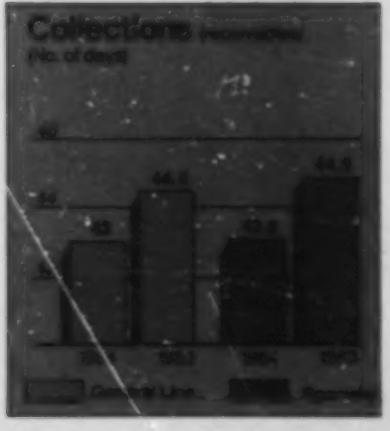
For general liners, receivables dropped from 44.4 to 43 days, an improvement of 3.2%. For specialists, the drop was from 44.9 to 43.6 days, or 2.3%.

With inflation staying low, and interest rates falling as well, it is expected that receivables for 1985, especially in the second half of the year, should show further improvement.









The complete 39th Survey of Distributor Operations is for sale in report form. It contains 232 pages of statistics which, in addition to national information, includes regional breakdowns of business operations for each of the industrial distribution categories. A table of contents easily brings the reader into specific sections for analysis. A single copy is $150. For more information contact Laurie Schnepf, Research Director, Technical Publishing Co., 875 Third Ave., New York, NY 10022 or call (212) 605-9679.

ID's QUARTERLY INFLATION INDEX

As the Table 1 summary indicates, the *SilverID Inflation Index* rose 2.8% for the first quarter of 1985. For the four years we have been publishing the index, the inflation rate for the other three quarters was always lower than that for the first quarter. Because of this consideration we project an inflation rate for our index for 1985 averaging only slightly over 2%. For 1984 it was 2.24%.

However, there are some indications that the inflation rate may be higher. Note that the index has risen for three quarters in a row. For all previous periods in the last four years it rose in the first quarter and almost always went down for the rest of the year. Table 2 shows the movement for the 34 commodities in the index.

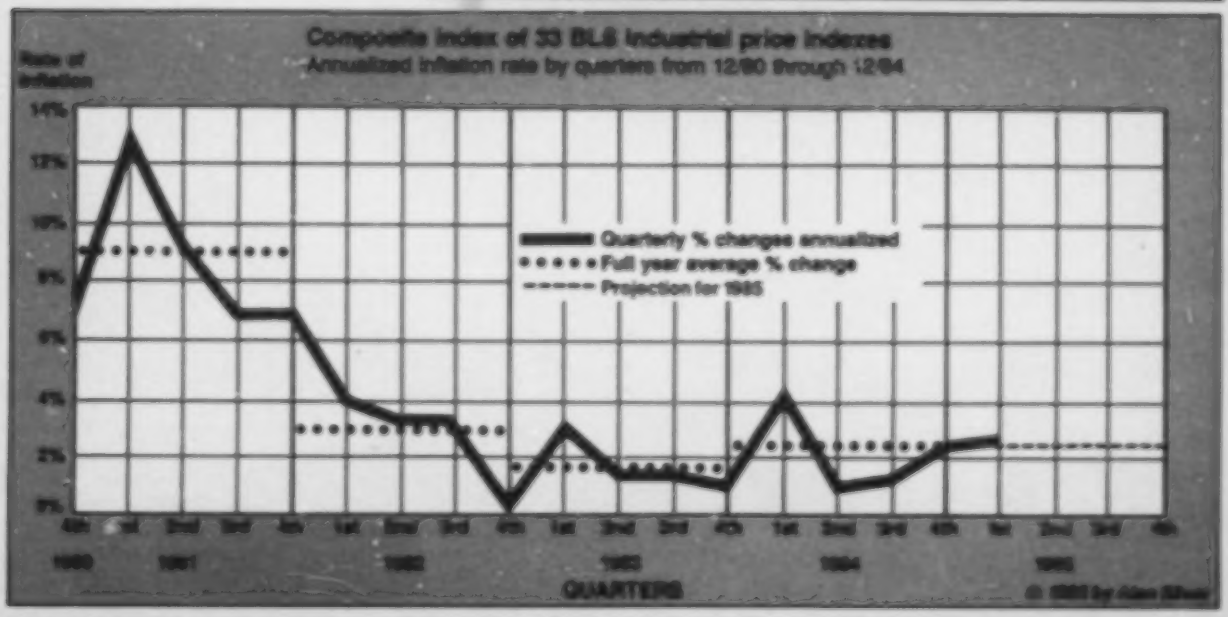
Compiled by Alan Silver Associates, Inc. Highland Park, NJ

For copies of Alan Silver's articles, write: Alan Silver & Associates, Inc., 168 Woodbridge Ave., Highland Park, NJ 08904 (201) 572-2300).

Table 1—Comparing inflation indexes

	Current qtr	*BLS inflation rates (%) Year-to-date		
	3/85 vs 12/84 annualized	3/85 vs 12/84 annualized	3/85 vs 3/84	12/84 vs 12/83
SilverID index of 33 industrial products groups	2.80%	2.80%	2.29%	2.24%
NEDA/SIDA index of 10 industrial product groups	0.34%	0.34%	3.39%	2.47%
**PPI index of industrial commodities	-0.48%	-0.48%	0.22%	1.44%
Avg. of above indexes	2.89%	2.89%	1.97%	2.14%
**PPI index of finished goods (incl/agric)	0.13%	0.13%	0.27%	1.83%
SilverWholesaler index of 13 lines (plmgh/hdwg)	3.64%	3.64%	3.64%	4.31%
Electrical Marketing Index of 24 product groups	3.39%	3.39%	1.86%	3.81%
***NAED inflation index: 16 product groups	10.64%	10.64%	6.10%	6.10%
Consumer Price Index	4.39%	4.39%	3.74%	3.88%

*Bureau of Labor Statistics (1967 = 100)
**Producers Price Index (formerly Wholesale Price Index)
***National Assn. of Electrical Distributo`s (non-BLS) (1973 = 100)
NOTE: All figures are based on BLS unadjusted indexes unless otherwise noted. For the first quarter of each year, the first two columns of figures will be alike. For all other quarters, the first column will be the last quarter annualized, and the second column of figures will be current year-to-date annualized. Upcoming reports will follow the above format.



ID's QUARTERLY INFLATION INDEX

Table 2—ID quarterly inflation index (1967 = 100 except where otherwise indicated)

Col 1	Col 2	Col 3	Col 4	Col 5	Col 6	Col 7	Col 8	Col 9	Col 10	Col 11
Product category	Current qtr 3/85	Previous qtr 02/85	% inflation current qtr	Current qtr on qtr adjusted %	Year-on-year 3/85 on 3/84 %	Year-on-year 3/85 on 3/84 unadjusted %	Last 6 months	12b qtr 03	12b qtr 03	Annual inflation rate %
[illegible]	372.1	372.7	0.00	0.00	0.00	0.00	0.11	372.7	371.7	0.27
[illegible]	279.7	277.3	0.87	0.42	0.87	0.45	4.04	277.3	264.0	4.89
[illegible]	264.0	244.3	2.70	11.04	2.70	11.04	5.65	244.3	234.1	2.11
[illegible]	305.6	314.3	-3.[illegible]	-1.72	-5.45	-1.72	-1.17	314.3	305.2	2.05
[illegible]	185.4	183.5	-5.57	-20.20	-5.57	-20.20	-2.15	183.5	179.2	-5.02
[illegible]	272.3	273.5	-2.15	-5.75	-5.15	-5.75	-5.15	273.5	270.5	0.[illegible]
[illegible]	207.2	214.3	0.00	3.55	0.00	3.55	-0.43	214.2	204.5	-5.15
[illegible]	403.2	103.6	-0.37	-1.15	-0.25	-1.11	-0.39	103.6	100.5	0.59
[illegible]	97.5	97.8	-0.31	-1.31	-0.31	-1.30	-0.05	97.8	104.5	-4.75
[illegible]	255.5	255.5	1.01	7.00	3.02	7.00	4.20	255.5	250.7	4.10
[illegible]	271.5	255.5	1.01	0.55	1.01	0.55	4.55	255.5	251.0	4.10
[illegible]	331.5	334.0	0.10	0.40	0.10	0.40	0.14	337.5	259.5	4.20
[illegible]	104.0	108.0	3.72	14.03	3.72	14.03	7.00	108.0	103.0	4.07
[illegible]	277.5	255.1	-0.01	-0.01	-0.03	-0.01	1.03	255.0	271.7	3.03
[illegible]	255.0	255.0	2.70	11.12	2.70	11.12	4.44	238.0	230.0	2.29
[illegible]	255.3	255.1	0.02	1.00	0.42	1.03	2.07	255.1	273.2	4.26
[illegible]	255.7	270.3	0.00	2.40	0.05	2.40	2.09	255.5	270.0	2.72
[illegible]	201.5	234.0	2.21	10.02	2.03	10.03	3.45	234.0	244.4	4.20
[illegible]	711.5	205.1	1.10	4.47	1.10	4.47	0.47	205.1	205.2	0.72
[illegible]	255.0	204.7	0.22	1.20	0.22	1.25	3.21	204.7	270.3	4.08
[illegible]	420.0	420.7	0.00	0.03	0.03	0.03	0.00	420.7	452.0	1.44
[illegible]	224.4	232.2	1.02	4.00	1.01	4.00	1.00	232.2	245.3	1.70
[illegible]	255.0	201.5	0.40	1.04	0.44	1.01	2.10	201.5	254.2	2.05
[illegible]	204.0	255.1	2.35	2.00	2.05	2.05	2.25	202.2	255.0	1.05
[illegible]	225.3	225.0	1.30	0.44	1.30	0.44	0.04	255.0	225.4	2.25
[illegible]	104.2	102.0	1.40	5.04	1.45	5.04	2.40	102.0	100.1	2.70
[illegible]	103.2	100.0	0.10	0.72	0.10	0.72	2.22	100.0	100.2	5.05
[illegible]	247.3	244.3	0.01	2.24	0.01	2.25	2.21	244.3	255.2	2.20
[illegible]	105.5	105.0	0.02	2.45	0.03	2.45	—	255.2	255.0	0.05
[illegible]	255.3	255.0	-0.07	-1.30	-0.07	-1.00	2.00	255.0	244.0	-1.10
[illegible]	220.4	225.3	-0.17	-0.03	-0.17	-0.03	1.24	225.1	225.7	2.01
[illegible]	103.5	25.3	3.01	12.10	7.25	12.10	4.22	05.3	103.4	4.00
[illegible]	105.1	103.0	0.20	1.10	0.20	1.10	1.20	103.0	103.7	2.00
[illegible]	210.70	220.0	1.01	0.24	1.30	0.21	2.22	220.0	200.1	0.47
[illegible]	200.20	207.20	0.70	2.05	0.70	2.01	2.25	227.2	255.0	2.24

[illegible] Industrial & MOA/SIDA composite

[illegible] 12/73=100 [illegible] 6/79=100 [illegible] 12/82=100 [illegible] 6/83=100 [illegible] 12/84=100

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